QUANTINNO

# DEALS Managed Account Platform

## Helping Clients Diversify Concentrated Positions

## The Challenge

Upon reading about the performance drag and higher volatility associated with concentrated portfolios, the client—a business executive at Apple—approaches their financial planner about diversifying their Apple position with a near-zero cost basis that they have been receiving during their tenure at the company.

Risk Tolerance: The client is comfortable with diversified equity exposure.

Goal: **Diversify their Apple holdings tax-neutrally** to a portfolio tracking the **S&P 500 index.**

## The Solution

The client's financial planner introduces them to long/short tax-loss harvesting with Quantinno, specifically the **DEALS Exchange strategy with low leverage**. This structure seeks to provide:

- A **tax-neutral path to diversification**
- A **lower target tracking error** over time
- Full **flexibility to modify** the transition

## The Outcome

With a near-zero cost basis, the client's Apple holdings are on track to be **diversified tax-efficiently over 8 and a half years.** Each month, Apple shares are sold in amounts that result in a tax liability equal to the tax benefits generated by the extensions, and the proceeds are reinvested into the chosen benchmark. The short extension also acts as a diversified hedge to help reduce concentrated stock risk.

When the price of Apple drops upon being downgraded by two sell-side equity analysts, the client believes **the stock is undervalued** and **requests to pause the diversification**. Once paused, the extensions continue generating tax losses for use outside of their DEALS Exchange account.

*Let's explore how DEALS Exchange helps another client…*

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Note: Assuming 23.8% tax rate on long-term capital gains and 40.8% tax rate on short-term capital gains.
This is solely for illustration purpose only and does not represent actual outcomes. Diversification does not eliminate the risk of loss. Past performance is no guarantee of future results. No assurance can be given that Quantinno's investment objectives will be achieved. Quantinno does not provide legal, tax, or accounting advice. Investors should consult their own tax or legal advisor prior to investment.

## The Challenge

The client—an avid stock picker—has made successful bets on technology stocks over the years. They now own large positions in Apple, Amazon and Uber, and would like to diversify their concentrated portfolio in a tax-efficient manner. Their desired benchmark is the US 3000 Large & Small Cap index.

Risk Tolerance: The client understands the risk associated with using higher leverage in their portfolio.

Goal: **Maximize tax-loss harvesting and diversify their concentrated portfolio** to reduce risk.

## The Solution

The client's wealth advisor proposes long/short tax-loss harvesting with Quantinno as a solution, specifically the **DEALS Exchange strategy with higher leverage.** Under this strategy, diversification is expected to unfold faster compared to lower leverage options. This comes at the tradeoff of a higher tracking error level, on which the wealth advisor has educated the client.

## The Outcome

**With a 30% cost basis, the client's concentrated portfolio is on track to be completed in a little under 6 years**, gradually transitioning towards a diversified portfolio tracking the Russell 3000 index and reducing the tracking error.

With the higher leverage, the long extension is constructed of a wider set of securities, providing more tax-loss harvesting opportunities. The short extension holds correlated securities to hedge Apple, Amazon and Uber separately, adding another layer of immediate risk reduction for the client.

## Recap

### Tax-neutral diversification

With DEALS Exchange, the client can **diversify their concentrated stock holdings in a tax-efficient manner,** benefiting from significant tax savings.

### Lower risk and tracking error

The short extension helps lower the concentrated stock risk. Over time, **the portfolio tracking error is reduced.**

### Flexible transition path

The client can **pause and restart** the Exchange program, **allowing them to act** if the concentrated stock price moves sharply, or temporarily use the capital loss to offset gains elsewhere.

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